

# MOBILISING INSTITUTIONAL INVESTMENT FOR PLACE-BASED IMPACT: A COLLABORATIVE MARKET-BUILDING INITIATIVE

## INTRODUCTION

The Good Economy, Impact Investing Institute and Pensions for Purpose are leading a collaborative market-building project to mobilise greater flows of institutional capital, particularly UK pension funds, to support place-based investments that drive more inclusive and sustainable development across the UK.

We aim to build an understanding that institutional investment markets have the potential to increase capital flows to socially useful projects that deliver positive social, economic and environmental outcomes, particularly in economically disadvantaged towns and cities. This includes investments in clean energy, housing, urban regeneration, SME finance, infrastructure and other private markets asset classes.

For the purposes of this project, we use the following working definition of place-based impact investing (PBII):

*Investments made with the intention to yield both financial and social and/or environmental returns with a focus on addressing the needs of specific places and specific populations to enhance local economic resilience, shared prosperity and sustainable development.*

This is a wide and inclusive approach to place-based impact investing. It recognises the pioneering work that is being done to scale-up social investment for social enterprises and charities tackling issues in deprived communities, led by organisations including Big Society Capital, Esmeé Fairbairn Foundation, Friends Provident Foundation and Social Investment Business. However, our focus is on building the market for *institutional investment* that delivers place-based impact alongside financial returns.

Institutional investment takes place within the context of global markets and asset allocation strategies. In this context, investing in the UK is the first step to a more place-based approach and impact is most directly created through investing in private markets, including private equity, private debt, infrastructure and real estate. Given the large size of institutional pools of capital and risk-return requirements, from a place-based perspective, such investors are most likely to have an appetite for large-scale investments in city-regions with good growth prospects. Hence, institutional investment is most aligned with the policy agenda to tackle regional inequality in the UK and boost private investment outside of London and the South East. Critical to any form of place-based impact investing is engagement with local stakeholders; an understanding of local needs, opportunities and priorities; a long-term, patient approach to investment; and a focus on investments that benefit local people and businesses.

The timing for this project is favourable given rapidly increasing market demand for ESG and impact investing opportunities from institutional investors. A particular focus for the project is the role of Local Government Pension Schemes (LGPS). Some LGPS, such as the Greater Manchester Pension Fund and Local Pensions Partnership, have already made explicit allocations to local investments. Are these pioneers setting a pathway that can create a new place-based impact investment trend among LGPS and the wider pension fund community?

Covid-19 has made the government's 'levelling up' agenda and the relevance of this project even more important. The pandemic has affected some people, sectors and places worse than others. The negative impacts of Covid-19 have highlighted the need for large-scale investment and innovative collaborative approaches between the public and private sectors to support a dynamic recovery that tackles the deep-rooted regional inequalities and high levels of poverty that Britain faces.

*"The pandemic has greatly expanded what is politically acceptable, and especially the widespread desire to go beyond what we had before, and 'build back better' – Go Big and Go Local."*

UK2070 Commission

## SCOPE OF WORK

The project has three workstreams:

1. **Developing a conceptual framework for PBII impact measurement, management and reporting.** We are building a common framework for classifying and assessing the impact of PBII-aligned investments for use by all relevant stakeholders. This would unify the principles of place-based policy and impact investing. We will develop this framework collaboratively with Big Society Capital (BSC), building on The Good Economy (TGE) and BSC's collective experience, as well as bringing in other experience and perspectives. We will test out and seek to build consensus on a common framework and also prompt further work on developing impact reporting standards for PBII-aligned sectors, as TGE has helped develop for social and affordable housing.
2. **Building the evidence base** on both the current level of PBII by the LGPS sector and the PBII opportunity from a financial performance perspective.
  - a. **Baseline assessment.** We are taking a triangulated approach to the baseline assessment of LGPS activity comprising (i) LGPS data analysis (based on 2017 and 2020 datasets of LGPS holdings), (ii) a critical review of LGPS annual reports, and (iii) stakeholder interviews with LGPS fund managers, advisors, local authorities and other stakeholders. The analysis will assess the propensity of pension funds to invest for positive local impact based on criteria related to intentionality, investment activity and quality of reporting.
  - b. **Financial performance analysis.** We are gathering data from Preqin and other sources in order to assess the financial performance of PBII-aligned asset classes. This analysis will assess (i) financial returns from asset classes; (ii) volatility of these returns; and (iii) the correlation of these returns to more mainstream asset classes. The analysis, while likely to be based on small sample datasets, is expected to provide new insights.
3. **Critical review of existing institutional asset management models.** The workstream includes:
  - a. **Critical review of international experience** with a focus on Australia, Canada, and the Netherlands to inform and provide insight that might be relevant to the UK.
  - b. **Case studies** of place-based investing in four selected areas where the LGPS has taken a proactive approach to investing locally, to understand the different types of investment strategies and models and the results from a financial and place-based impact perspective.
  - c. **Review of existing institutional asset management models** and gaps related to the main investment phases of deal origination, development risk capital and the ownership of completed assets.

## OUTPUTS AND EXPECTED OUTCOMES

The main output will be a White Paper that will provide insight on current trends and recommendations on how to build the market for place-based impact investing. Expected outcomes include:

1. **A conceptual framework to define, measure and report the impact of place-based impact investing**, that will help build a shared understanding and approach to mobilising capital for place-based impact across market actors.
2. **An assessment of the state of the market for place-based investing**, with particular reference to LGPS activity.
3. **Recommendations on how to mobilise private capital at scale to invest in ways that deliver positive social and environmental outcomes and tackle place-based inequalities.** This is likely to include recommendations on how to tackle the information gap, develop institutional asset management models and build a supportive role for government policy and investment.

The project is running from July 2020 to March 2021.

## PARTNERS AND TEAM

**The Good Economy Partnership (TGE)** is a leading social advisory firm dedicated to enhancing the contribution of finance and business to inclusive and sustainable development. Established in 2015, TGE has rapidly established itself as a trusted advisor working with public, private and social sector clients. TGE provides impact strategy, measurement and management services and also runs collaborative projects bringing together market participants to build shared thinking and new approaches to mobilising capital for positive impact.

The **Impact Investing Institute** is an independent, non-profit organisation which aims to accelerate the growth and improve the effectiveness of the impact investing market. It does this by raising awareness of, addressing barriers to, and increasing confidence in investing with impact.

**Pensions for Purpose** is a professional investment member network focused on directing capital towards sustainable and impact investments. It brings influencer members (consultants, legal firms and asset managers) and affiliate members (pension funds and other institutional asset owners) together to find investable solutions which align with the environment and society. This is facilitated through sharing of thought leadership and case studies, investor roundtables, events and training.

**This project is being led by Sarah Forster and Mark Hepworth, Founding Directors of The Good Economy, and Paul Stanworth, former CEO of Legal & General Capital.**

**Sarah Forster, CEO and Co-Founder of The Good Economy.** Sarah brings over 25 years' experience in the fields of sustainable development and impact investing both internationally and in the UK. She combines a strong knowledge of development policy issues with practical experience in the design of pioneering impact investment vehicles and products. Sarah has led the growth of TGE's advisory services on impact measurement and management. Previously Sarah held senior positions at Big Issue Invest, the New Economics Foundation and the World Bank.

**Mark Hepworth, Director of Research and Policy and Co-Founder of The Good Economy.** Mark is a multidisciplinary economist whose 35 year international career in the field of economic development spans university research, public policy and strategy consultancy. He has worked at the leading edge of place-based economic development and regeneration at all levels throughout the UK. At TGE, Mark leads the development of geographical methodologies for assessing and reporting on the impacts of private and public investments across communities, regions and countries

**Paul Stanworth, Principal Associate, The Good Economy.** Paul is a professional institutional investor with 30 years' experience in investments and finance, specialising in the development of new and innovative businesses. Paul's asset management experience covers credit, start-ups, private equity, real estate, derivatives, money markets and rates. Paul also has extensive Board experience as a FTSE100 ExCo member and NED. Professionally Paul is a qualified actuary. Previously, Paul was CEO of L&G Capital and has also worked for Merrill Lynch, Deutsche Bank and M&G.

FOR FURTHER INFORMATION ON THIS PROJECT OR IF YOU WOULD LIKE TO GET INVOLVED, PLEASE CONTACT SARAH FORSTER AT [SARAH@THEGOODECONOMY.CO.UK](mailto:SARAH@THEGOODECONOMY.CO.UK)